

OPEN MEETING AGENDA ITEM



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2010 AUG -5 P 4: 18

Gary Pierce  
Commissioner

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**ARIZONA CORPORATION COMMISSION**

AZ CORP COMMISSION  
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Arizona Corporation Commission

**DOCKETED**

**AUG 5 2010**

August 4, 2010

Re: Johnson Utilities Company; Docket No. WS-02987A-08-0180

DOCKETED BY	
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Dear Parties:

As the Commission prepares to consider this matter in Open Meeting for a third time later this month, please review this table and respond to the following requests:

Alternatives	Water Rate Base	Wastewater Rate Base	Revenue Requirement	CAGR Adjustor (\$1.297 million)
ROO	(\$13,682,831)	\$136,562	\$23,533,291	N/A
ROO & Hearing 1	(\$13,682,831)	\$136,562	\$22,098,089	N/A
Mayes 3	???	\$136,562	???	N/A
Mayes 4	(\$13,682,831)	\$136,562	???	N/A
Johnson 12	\$2,548,471	\$14,206,626	\$20,974,722	\$22,272,617
Pierce 1	N/A	N/A	???	N/A
Pierce 2	(\$6,751,753)	\$136,562	???	N/A

First, please verify that the listed dollar amounts are accurate under the applicable scenarios. If any of the listed amounts are inaccurate, please provide the accurate amounts. Next, please replace all question marks by inserting the correct dollar amounts. For example, with respect to Mayes 3, please indicate the amount of rate base for the water division and the revenue requirement if Mayes 3 is adopted. Also, if a party believes that Mayes 3 & Mayes 4 are compatible with the adoption of a CAGR Adjustor, please indicate the revenue impact of adopting a CAGR Adjustor, such as Mayes 2?

For Pierce 1 and Pierce 2, please identify the impact on revenue requirement.

**Modified Johnson 12**

What would be the water and wastewater division rate base amounts, and what would be the revenue requirement if the Commission adopts a modified version of Johnson Utilities Proposed Amendment 12 that disallows 2% of unsupported plant?

In other words, what if the Commission adopts an amendment that is identical to Johnson 12, except that the proposed language to be inserted into the ROO at page 8, line 12 is slightly altered to read as follows:

"It is incumbent upon all regulated utilities to keep the records necessary to demonstrate the actual cost of its properties in a form that provides complete and authentic information. The evidence in this case demonstrates that the Company has not fully complied with regulatory accounting requirements, and has not fully met its burden of proof regarding the actual cost of its properties. Staff's recommended adjustment of 10% for inadequately supported plant costs would result in a disallowance of \$18,326,088. Such a disallowance is too large under the circumstances of this case, and when combined with the other disallowances recommended by Staff, would result in a negative rate base for the company. In light of the circumstances and in weighing the factors in this case, the Commission finds that a 2% disallowance is warranted, which will result in a disallowance of \$3,665,217.

It is reasonable and in the public interest to require the Company to keep its records in accordance with the NARUC USOA and Commission rules in a manner that will support its filings with the commission. In future proceedings, if the Company again fails to produce adequate records demonstrating the cost of plant additions, it may be reasonable to consider a greater disallowance than that adopted in this case or a penalty for noncompliance with Commission rules and Orders."

If the Commission were to disallow 2.5% of unsupported plant instead of 2%, what would be the impact to the water and wastewater division rate base amounts, and what would be the revenue requirement?

### **Ranking the Options**

It would help me in my deliberations if the parties would identify their order of preference among the following options.

- Option 1 -- Adopt the ROO and Hearing 1
- Option 2 -- Adopt the ROO and Mayes 2
- Option 3 -- Adopt the ROO, Mayes 2, and Pierce 1
- Option 4 -- Adopt the ROO, Mayes 2, and Pierce 1 & 2
- Option 5 -- Adopt the ROO, Mayes 2, and Pierce 2
- Option 6 -- Adopt Mayes 3 and Hearing 1
- Option 7 -- Adopt Mayes 4 and Hearing 1
- Option 8 -- Adopt Johnson Utilities 12 & Mayes 2
- Option 9 -- Adopt a Modified Johnson 12 (as described above) & Mayes 2

If Staff, RUCO, or Swing First Golf, LLC find themselves in a position of preferring an option that has a higher revenue requirement than one of the alternative options listed above, I would appreciate an explanation of why ratepayers would be better off under Staff's, RUCO's or Swing First Golf, LLC's preferred option than under the option with a lower revenue requirement.

## Conclusion

Thank you for your responses to these requests. I hope to review them prior to Open Meeting, so it would be helpful if you would docket your responses before the close of business on Tuesday, August 10<sup>th</sup>.

I believe your responses will provide clarity to the Commission regarding the pros and cons of the various options before it and facilitate an informed, efficient and productive discussion at our upcoming Open Meeting.

Sincerely,



Commissioner Gary Pierce

Docket  
Chairman Kristin Mayes  
Commissioner Sandra Kennedy  
Commissioner Bob Stump  
Commissioner Paul Newman  
Ernest Johnson  
Rebecca Wilder  
Amy Love  
Lyn Farmer  
Janice Alward  
Steve Olea